Before the
FEDERAL COMMUNICATIONS COMMISSION DOCKET FILE COPY ORIGINAL
Washington, D.C. 20554

In the Matter of	)	FCC 96-214
	)	
Allocation of Costs Associated with	)	CC Docket No. 96-112
Local Exchange Carrier Provision of	)	
Video Programming Services	)	

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Comments of
Harris, Skrivan & Associates, LLC

Harris, Skrivan & Associates, LLC (HSA) provides financial and regulatory services to Independent Local Exchange Carriers throughout the United States. These comments represent the position of HSA's Independent Telephone Company clients These comments represent the positions of the following Independent Telephone Companies; Cross Telephone Company, Cimarron Telephone Company and Pottawatomie Telephone Company.

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SUMMARY

These comments address the environment of the rural telephone companies. The environment of the rural local exchange carrier is very different than the environment of the larger companies. This has been recognized by the FCC in numerous Orders, and by the Congress in the Telecommunications Act of 1996 (TA 96). Rural telephone companies can and will be affected significantly by the cost allocation methodology for video programming and other non-regulated service offerings. If the rules are properly crafted and well implemented, rural telephone companies will be encouraged to offer new services to the public, resulting in new services to rural customers If the rules allocate too much cost to non-regulated service offerings, such as video programming, the rural companies have more trouble justifying such services and rural subscribers may not receive the benefits of such services. The cost allocation rules must, therefore, recognize the unique circumstances faced by rural telephone companies.

More analysis needs to be done by rural telephone companies before fixed allocators are established and potentially devastating procedures implemented. This will allow small companies to provide a better and more fair support for the non-regulated allocator.

The treatment of spare capacity for rural companies is a critical issue for rural telephone companies. Too much is at stake here for rural customers. Treatment of capacity for rural companies should be different than for large urban companies and should reflect the differences in rural company operations. Rural companies should not be required to arbitrarily allocate significant costs to non-regulated, associated with spare plant capacity.

COMMENTS

The Federal Communications Commission's (FCC) Notice of Proposed Rulemaking (NPRM), regarding Allocation of Costs Associated with Local Exchange Carrier Provision of Video Programming services identifies a number of difficult cost allocation issues. These issues have the potential to have great impact on the rates and revenues of rural telephone companies. These issues must be considered in light of the universal service mandates of TA 96.

Perhaps the most difficult cost allocation problem exists when multiple services are provided using common resources. The problem is exacerbated when the common resource makes up most of the overall costs and is non-traffic sensitive in nature. Regulators have struggled with this problem for many decades. This dilemma was recognized as early as 1910, when the New York Public Service Commission was deciding a New York Telephone Company rate case and concluded,

> "It is impossible to determine the cost of toll service separately from that of the local service for reason that the greater part of the cost of both is joint cost and there is no way of allocating the proper portion of the joint cost to each branch of service." (New York Telephone Company 2P.S.C. (2nd Dist., N.Y.) 710)

If it is necessary to allocate common costs, it must be done with fairness and result in benefits to subscribers. The correct method of allocation does not lie in accounting or economic theory. It lies in reasonable approaches based on experience, tempered with understanding of rural environments.

ALLOCATION OF COSTS

The FCC tentatively proposes to use a fixed allocator of 50% to allocate loop costs to the non-regulated services. This might, or might not, be an appropriate allocator for large urban companies, but would not work very well in rural areas. Rural loop costs are higher for a number of reasons. These reasons include longer loops, smaller cables, lower fill ratios, and fewer customers to pay for other fixed costs. If the same non-regulated allocator is used in rural areas, the actual cost per loop allocated is much higher This makes it much more difficult for rural telephone companies to bring advanced services to rural customers. For example, if an FCC determined fixed allocator results in allocating $10 of loop costs to non-regulated for urban companies, the same allocator might allocate $25 to non-regulated for rural companies. It would be much more difficult for a rural company to find a non-regulated service to pay for the $25 opportunity cost than for an urban company to find a non-regulated service to pay the $10 opportunity cost.

The FCC proposes to use fixed allocators in order to satisfy the primary principle of administrative simplicity. Rural companies are concerned that this principle will result in a "one size fits all" solution for cost allocations. Rural companies want to be able to meet the special needs of rural customers by offering non-regulated services in the most cost-effective manner. If it requires special cost studies for this to happen, rural companies would like that option. Therefore, it would be better to allow companies to produce more detailed cost studies as an alternative to default fixed rural allocators or allocations.

ALLOCATION OF SPARE FACILITIES

Under Part 36 cost allocation procedures, spare capacity is not counted or categorized. This results in spare capacity being allocated on the same basis of the revenue-producing plant, categorized and allocated in accordance with Part 36 rules. Rural companies have built spare capacity to serve rural telephone companies with regulated telephone service. Such companies are, and have been, totally committed to serving the telephone needs of rural customers.

Spare capacity is a significant issue for rural companies. Rural companies tend to have a higher relative investment per loop and a higher average cost per loop, making spare capacity an important issue. Rural cable runs tend to use smaller cable complements, which for statistical reasons, have lower fill ratios and result in a higher percentage of spare loops.

The use of a nationwide non-regulated factor for spare capacity would be inappropriate for rural telephone companies. The administrative simplification of such a procedure would be a small consolation to companies suddenly losing a significant portion of their revenues. Rural companies stand ready and willing to perform specialized studies to determine the nature of spare capacity. This will avoid the potentially disastrous results of using a nationwide approach, just to make life simpler for rural companies.

The FCC would do well to consider another aspect of the nature of the cost of spare capacity. Typically, spare capacity exists when a rural company is laying a cable to a rural area and, using sound engineering principles, adds spare capacity in anticipation of future growth. For example, a new cable run passing twelve customers might use a twenty-five pair cable. The rural company does not know whether it will see new residential customers, new business customers, additional second lines, or no growth at all. But from experience, it knows that the public is better served if spare capacity is added. This practice clearly results in long run costs which are lower for all ratepayers. However, the incremental costs of putting a twenty-five pair cable instead of a twelve pair cable may only be ten percent of the total cost. Only one trench has to be dug, only twelve drops have to be placed, only twelve (or less) pedestals have to be opened, only twelve pair gain devices are needed and only twelve line cards have to put into service. Since the incremental cost of spare capacity is very low, it makes little sense to allocate the same average loop cost to spare as are allocated to loops in service.

Rural companies should, therefore, not be required to use a "one size fits all" allocator of spare plant. Let rural companies do cost studies to develop allocators. And, do not assume rural companies have added spare plant for future non-regulated services. It simply is not so.

Respectfully Submitted

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